

## Message Text

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ACTION AID-59

INFO OCT-01 EUR-12 IO-14 CIAE-00 EA-12 EB-08 INR-10  
NEA-11 SIL-01 SP-02 SS-15 ( ISO ) W  
-----021894 311411Z /11  
R 250359Z MAY 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 2059  
INFO USMISSION USUN  
USMISSION GENEVA

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PASS EUR/RPE

E.O. 11652: N/A  
SUBJECT: DAC PLENARY MEETING (AT SENIOR LEVEL),  
MAY 23, 1978 - STEPPED-UP INVESTMENT IN THIRD WORLD

REFS: (A) DAC(78)16, MAY 12, 1978; (B) STATE 130035;  
(C) PARIS 15650

1. SUMMARY: MEMBERS AGREED THAT CONCEPT PROPOSED IN

.  
DAC(78)16 IS INTERESTING AND, AFTER CLARIFICATION,  
SHOULD RECEIVE FURTHER CONSIDERATION. BUT MAJOR AID  
DONORS THAT WOULD BE SOURCE OF ADDITIONAL RESOURCES  
STRESSED DIFFICULTIES OF SUCH SCHEME, AND WHILE APPLAUD-  
ING CONCEPT QUESTIONED WHETHER WE KNOW HOW TO ENCOURAGE  
NEW TRANSFERS OVER AND ABOVE THE POSITIVE ACTIONS  
ALREADY IN TRAIN TO INCREASE AND PROMOTE GREATER  
RESOURCE FLOWS TO LDC'S. THERE WAS AGREEMENT THAT WE  
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SHOULD NOT REGARD IT AS ELEMENT OF COUNTER-CYCLICAL  
POLICY. PAPER WILL BE REVISED FOR DELEGATIONS TO USE  
IN PREPARING FOR JUNE 14015 OECD MINISTERIAL. GIVEN  
THE BASIC MERIT OF EXPANDING RESOURCE FLOWS, WE  
BELIEVE U.S. SHOULD BE PREPARED ENDORSE FURTHER STUDY,  
PARTICULARLY POSSIBLE TECHNIQUES OF IMPLEMENTATION.  
END SUMMARY.

2. DAC CHAIRMAN WILLIAMS PRESIDED OVER THIS MEETING WHICH WAS ATTENDED BY SENIOR OFFICIALS FROM CAPITALS OF 14 OF THE 17 MEMBER COUNTRIES (ALL EXCEPT AUSTRALIA, ITALY AND NEW ZEALAND). BECAUSE OF LATE ISSUANCE OF THE KEY DOCUMENT DAC(78)16 AND FACT THAT MEETING WAS HASTILY ORGANIZED, PLUS WEIGHTY AND COMPLEX NATURE OF TOPIC, IT WAS RECOGNIZED BY ALL PARTICIPANTS THAT COM-

MENTS COULD ONLY BE PRELIMINARY AND THAT WE WERE DISCUSSING A CONCEPT, NOT A PROPOSAL. YET EXCHANGE OF VIEWS WAS DESIRABLE AT THIS TIME BECAUSE TOPIC MAY BE CONSIDERED BY MINISTERS AT OECD MINISTERIAL JUNE 14-15 IN CONTEXT OF DISCUSSION OF GLOBAL INTERDEPENDENCE.

3. WILLIAMS COMMENCED MEETING BY GIVING BRIEF RUN-DOWN OF THE PAPER, NOTING ITS TWIN GOALS OF PROMOTING MORE RAPID DEVELOPMENT IN LDC'S WHILE STIMULATING USE OF SAVINGS AND UNDERUTILIZED ECONOMIC CAPACITY IN OECD INDUSTRIALIZED COUNTRIES (COPIES OF HIS INTRODUCTORY REMARKS POUCHED). HE SAID THAT AS RESULT OF RECENT TALKS WITH PRIVATE BANKERS AND IBRD OFFICIALS, HE BELIEVES THAT A SUBSTANTIAL VOLUME OF ADDITIONAL RESOURCE FLOWS MIGHT BE MADE AVAILABLE TO LDC'S OVER NEXT FEW YEARS THROUGH CO-FINANCING BY IFI'S AND COMMERCIAL SOURCES IF APPROPRIATE PROGRAMS ADOPTED AND ACTIONS UNCLASSIFIED

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INITIATED. BULK OF THE MEETING TIME WAS THEN TAKEN UP BY INDIVIDUAL COUNTRY STATEMENTS WHICH LED TO NO DEBATE.

4. MEMBERS' VIEWS NOT SURPRISINGLY TENDED TO POLARIZE. THE NORDICS PLUS AUSTRIA AND SWITZERLAND GENERALLY SEE SCHEME IN POSITIVE LIGHT AS WAY TO PROMOTE LARGE ADDITIONAL RESOURCE FLOWS TO LDC'S. BUT MAJOR ECONOMIC POWERS FROM WHICH MOST OF THE MONEY WOULD HAVE TO COME, E.G., GERMANY, JAPAN, U.K., FRANCE, WERE MUCH MORE CAUTIOUS, STRESSED CONSTRAINTS AND PROBLEMS OF THE PROPOSAL, AND QUESTIONED WHETHER IT WAS REALISTIC FOR MEMBERS TO CONSIDER ENCOURAGING MASSIVE NEW TRANSFERS OVER AND ABOVE POSITIVE ACTIONS ALONG THESE LINES ALREADY ON-GOING. U.S. SPOKESMAN (BRONHEIM), SPEAKING NEAR END, CALLED IDEA "FASCINATING" IF, REPEAT IF, IT COULD WORK. HE SAID THE LONG LIST OF PROBLEMS ALREADY HAD BEEN IDENTIFIED BY OTHER SPEAKERS AND THIS IN EFFECT FORMS TABLE OF CONTENTS FOR NEXT DRAFT OF PAPER WHICH WE AWAIT, WILL ASSESS AND THEN DETERMINE FURTHER ACTION. THIS DIVISION OF VIEW BETWEEN MEMBERS WAS LEFT HANGING AND WILL HAVE TO BE ADDRESSED AGAIN WHEN NEXT DRAFT READY.

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5. THE MAJOR POINTS BROUGHT UP DURING THE DAY REGARDING  
THE PROPOSAL FOLLOW:

A. COUNTER-CYCLICAL EFFECTS - MOST MEMBERS  
AGREED THAT PRIME JUSTIFICATION FOR ANY SUCH SCHEME  
WOULD HAVE TO BE DEVELOPMENT OF LDC'S RATHER THAN  
ASSISTANCE TO DEPRESSED OECD ECONOMIES. SCALE OF  
ADDITIONAL RESOURCES PLUS PROBABLE TIMING WOULD MAKE  
SCHEME MARGINAL AT BEST AS COUNTER-CYCLICAL MEASURE.  
NEVERTHELESS SOME SPOKESMEN, E.G., AUSTRIA, SAID THIS  
POINT NEVERTHELESS COULD BE STRESSED TO SELL IDEA TO  
PUBLIC. FRENCH DEL REMARKED WE ARE ALL KEYNESIANS OR  
NEO-KEYNESIANS ON INTERNATIONAL SCALE.

B. ECONOMIC DISTORTION - SOME SPOKESMEN (U.K.,  
NETHERLANDS, SWITZERLAND) NOTED DANGER THAT ADDITIONAL  
FUNDS MIGHT BE USED PRIMARILY TO SUPPORT DEPRESSED,  
INEFFICIENT INDUSTRIES IN INDUSTRIALIZED COUNTRIES,  
CREATING ECONOMIC DISTORTIONS AND SLOWING ADJUSTMENT  
PROCESS.

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C. MECHANISMS, AND HOW TO RAISE THE FUNDS - IT WAS RECOGNIZED THAT MOST OF THE FUNDS BEING TALKED ABOUT ARE ACTUALLY IN PRIVATE HANDS, AND THAT ALL GOVERNMENTS AND IFI'S CAN DO IS PROVIDE INCENTIVES FOR GREATER AMOUNTS OF THEM TO FLOW TO LDC'S. THE MOST FRUITFUL, POSSIBLE NEW TECHNIQUE APPEARS TO BE EFFORTS AT MORE CO-FINANCING BY IBRD AND OTHER IFI'S WITH COMMERCIAL BANKS. IBRD REP SAID MORE IS BEING CONSIDERED ALONG THIS LINE. BUT MANY PROBLEMS EXIST, E.G., PRIVATE BANKS LEND AT SHORT-TERM AND IBRD AT MEDIUM OR LONGER, SO PUTTING TOGETHER REASONABLE FINANCING PACKAGE IN WHICH IBRD IS NOT PREJUDICED (FOR EXAMOLE BY HAVING TO TAKE ALL THE LONG MATURITIES) IS NOT EASY. CO-FINANCING BETWEEN IFI'S AND BILATERAL AID AGENCIES (INCLUDING OPEC) ALREADY IS IMPORTANT. MANY DAC MEMBERS HAVE SIGNIFICANT INSURANCE GUARANTY PROGRAMS FOR INVESTORS IN LDC'S, AND MARGINAL IMPROVEMENTS HERE WOULD NOT NECESSARILY RESULT IN LARGER NEW FLOWS. RE LDC FLOTATIONS ON INDUSTRIALIZED-COUNTRY BOND MARKETS, SEVERAL NOTED THAT THE DEVELOPMENT COMMITTEE IS HAVING LITTLE SUCCESS. GERMAN REP SAID FRG BOND MARKETS ARE OPEN TO ALL INCLUDING LDC'S, AND MANY IN FACT DO BORROW THERE; BUT GERMANY WOULD NOT ADOPT MEASURES TO DISCRIMINATE IN FAVOR OF LDC'S. SEVERAL SPOKESMEN NOTED THAT THE MAIN IMPEDIMENT TO MORE PRIVATE INVESTMENT FLOWS TO LDC'S IS THE MEDIOCRE INVESTMENT CLIMATE AND PROSPECTS IN MANY OF THEM.

D. LDC ABSORPTIVE CAPACITY - THE USUAL PROBLEMS REGARDING WHETHER OR NOT LDC'S COULD QUICKLY COME UP WITH MORE PROJECTS AND PROGRAMS TO ABSORB LARGE ADDITIONAL FUNDS WAS BROUGHT UP BY MANY SPEAKERS. MOST THOUGHT THEY COULD NOT, AT LEAST IN SHORT RUN. BUT UNCLASSIFIED

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MANY COULD ABSORB MORE PROGRAM AND BALANCE-OF-PAYMENTS FINANCING PROMPTLY; THIS TYPE OF FINANCING ALSO WOULD STIMULATE INDUSTRIALIZED COUNTRY ECONOMIES MORE QUICKLY.

E. LDC DEBT - GERMAN AND NEW ZEALAND SPOKESMEN REMINDED THAT BIG INCREASES IN LOANS AT SHORT AND MEDIUM-TERM COULD EXACERBATE LDC DEBT PROBLEMS.

F. SECTORS OF EMPHASIS, AND BHN - DAC(78)16 SUGGESTS THAT THE ADDITIONAL RESOURCES MIGHT BE CONCENTRATED IN SUCH MUTUALLY IMPORTANT AREAS AS ENERGY DEVELOPMENT, FOOD SECURITY, AND COMMODITIES, PLUS RE-

LATED INFRASTRUCTURE. SEVERAL DAC MEMBERS SAID THAT INDUSTRIAL DEVELOPMENT ALSO WOULD HAVE TO BE STRESSED BECAUSE OF PRIORITY G-77 ATTACHES TO THIS. OTHERS FELT THAT NO PARTICULAR SECTOR NEED BE STRESSED -- SOUND PROJECTS AND PROGRAMS ANYWHERE SHOULD BE SUPPORTED. BUT CONSENSUS WAS THAT THIS MATTER NEED NOT BE FURTHER ASSESSED NOW UNTIL WE DETERMINE WHETHER OR NOT SOME PROPOSAL FEASIBLE; IF WE DO INDEED SUCCEED IN MOBILIZING ADDITIONAL FUNDS, WE CAN THEN DECIDE WHERE WE WANT TO CHANNEL THEM. RE BHN, MEMBERS AGREED THAT THERE IS NO NECESSARY CONFLICT BETWEEN THIS PROPOSAL AND BHN-ORIENTED DEVELOPMENT STRATEGY.

G. CONSULTATIONS WITH LDC'S - NORDICS AND DUTCH IN PARTICULAR STRESSED THAT CONSULTATIONS WITH G-77 ON PROPOSAL SHOULD BE HELD AT EARLY DATE IF WE DECIDE USOECD

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AFTER FURTHER CONSIDERATION THAT IT IS VIABLE, AND WE WANT TO PROCEED. IT WOULD HAVE TO BE UNDERTAKEN IN CONJUNCTION WITH LDC'S TO AVOID BEING VIEWED SOLELY AS A DEVICE TO SUPPORT OUR OWN ECONOMIES RATHER THAN SPUR LDC GROWTH. WE SHOULD ALSO BETTER COORDINATE WHAT WE DO IN OECD WITH SIMILAR DISCUSSIONS IN NEW YORK AND GENEVA.

6. AT CONCLUSION, IT WAS DECIDED THAT DAC(78)16 WILL

BE REVISED PROMPTLY BY SECRETARIAT ON BASIS OF THIS DISCUSSION AND PRESENTED TO MEMBERS FOR USE IN PREPARING FOR MINISTERIAL. POSSIBLE REFERENCE TO THIS TOPIC BY MINISTERS AND IN COMMUNIQUE LEFT OPEN.

7. BRIEF SEPTTEL FOLLOWS ON OTHER AGENDA ITEMS FOR THIS MEETING.

8. COMMENT: WE BELIEVE THAT EVEN WITH THE POLARIZATION OF VIEWS NOTED ABOVE, MOST OF DAC MEMBERS CONSIDER THE NOTION OF SOME KIND OF SUPPLEMENTAL SCHEME TO MOBILIZE PRIVATE SAVINGS FOR NEW AND ADDITIONAL INVESTMENTS IN THE LDC'S A VERY ATTRACTIVE ONE. A SYSTEM THROUGH  
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WHICH WE COULD STIMULATE INCREMENTAL FLOWS OF SAVINGS TO LDC'S WOULD BE IN THE POLITICAL AND ECONOMIC INTERESTS OF ALL CONCERNED. IN MY OPINION, HOWEVER, THE KEY QUESTION IS WHETHER THIS IN FACT COULD BE DONE AND, IF SO, AT WHAT COST. COSTS THAT SHOULD BE CONSIDERED ARE NOT ONLY DISPLACEMENT OF OTHER POSSIBLE USES FOR THE FUNDS, BUT ALSO THE POLITICAL COST OF GENERATING EXPECTATIONS THAT MAY NOT BE FULFILLED BOTH HERE AT THE OECD ON THE PART OF SMALL COUNTRIES, WHICH MAY HAVE LITTLE TO LOSE AND MUCH TO GAIN BY SUCH A PROPOSAL, AND ON THE PART OF THE LDC'S, WHOSE EXPECTATIONS MAY BE YET ONCE AGAIN DISAPPOINTED. BEARING IN MIND THAT THE SECRETARIAT PAPER BECAME AVAILABLE ONLY A SHORT TIME AGO, I THINK IT WOULD BE BOTH PRUDENT AND APPROPRIATE TO ASK THE SECRETARIAT AS PART OF THE FOLLOW-ON WORK TO CAREFULLY EXPLORE THE REALISTIC POSSIBILITIES OF GENERATING FUNDS IN THE MAGNITUDES NECESSARY TO HAVE ANY IMPACT. I ALSO SUGGEST THAT REALISTIC ASSESSMENTS FOR THE FEASIBILITY AND THE AMOUNTS TO BE "CO-FINANCED" BE OBTAINED FROM INSTITUTIONS WITH LONG EXPERIENCE IN THIS FIELD, INCLUDING IFC, OPIC, AND OTHER DEVELOPMENT-LENDING INSTITUTIONS. AT THE OECD MINISTERIAL, THE US COULD, IN MY OPINION, ENDORSE SUCH AN EXPLORATION OF THE TECHNIQUES AND THE RESULTS THAT MIGHT BE REALISTICALLY EXPECTED.

IT WAS ALSO QUITE CLEAR AT THE MEETING THAT MEMBERS CONSIDER THAT THE ADOPTION OF ANY SUCH SYSTEM WHICH MIGHT ENTAIL ADDITIONAL USES OF ODA IN ONE OR ANOTHER FASHION SHOULD NOT AFFECT ODA PROGRAMS ALREADY AGREED; I.E., ODA SHOULD BE ADDITIONAL. MOREOVER, THE QUESTION OF AID VOLUME WILL BE ON THE MINDS OF MANY EUROPEAN DELEGATIONS AT THE OECD MINISTERIAL, GIVEN THAT IN RELATIVE TERMS DAC ODA IN 1977 APPEARS  
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## Message Attributes

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